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Customer Success Is Our Mission

Changing the Dynamics of the Customer - Industry Partnership

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The State of Change

- World security, economic and social environment changing
- Radical factions likely to remain a threat to large democracies
- Cost of the global war on terrorism is creating change and opportunity
- Door open to jointness and commonality

New industry-government partnerships required to speed the pace of new capability

The Budget and the Deficit

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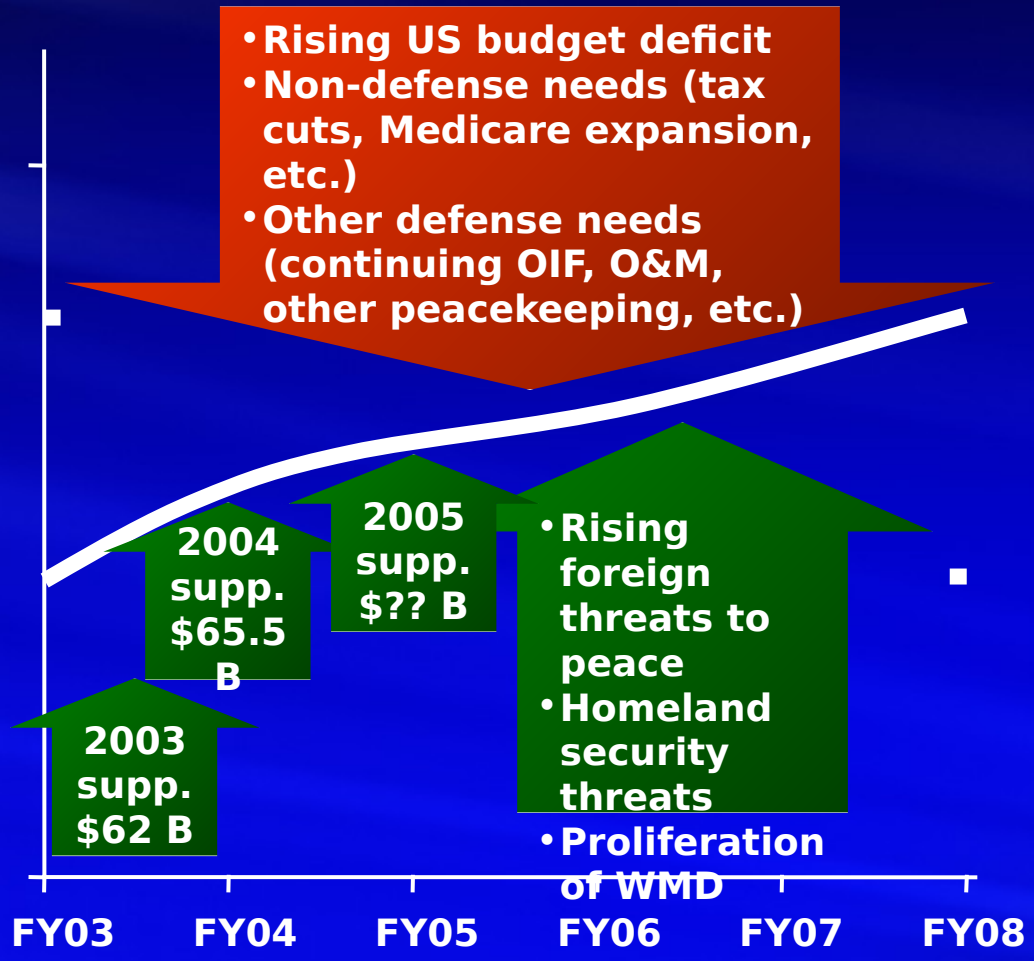
Pressures on the budget growing …



Budget pressure will further accelerate the need for transformation

Aerospace Industry Profitability

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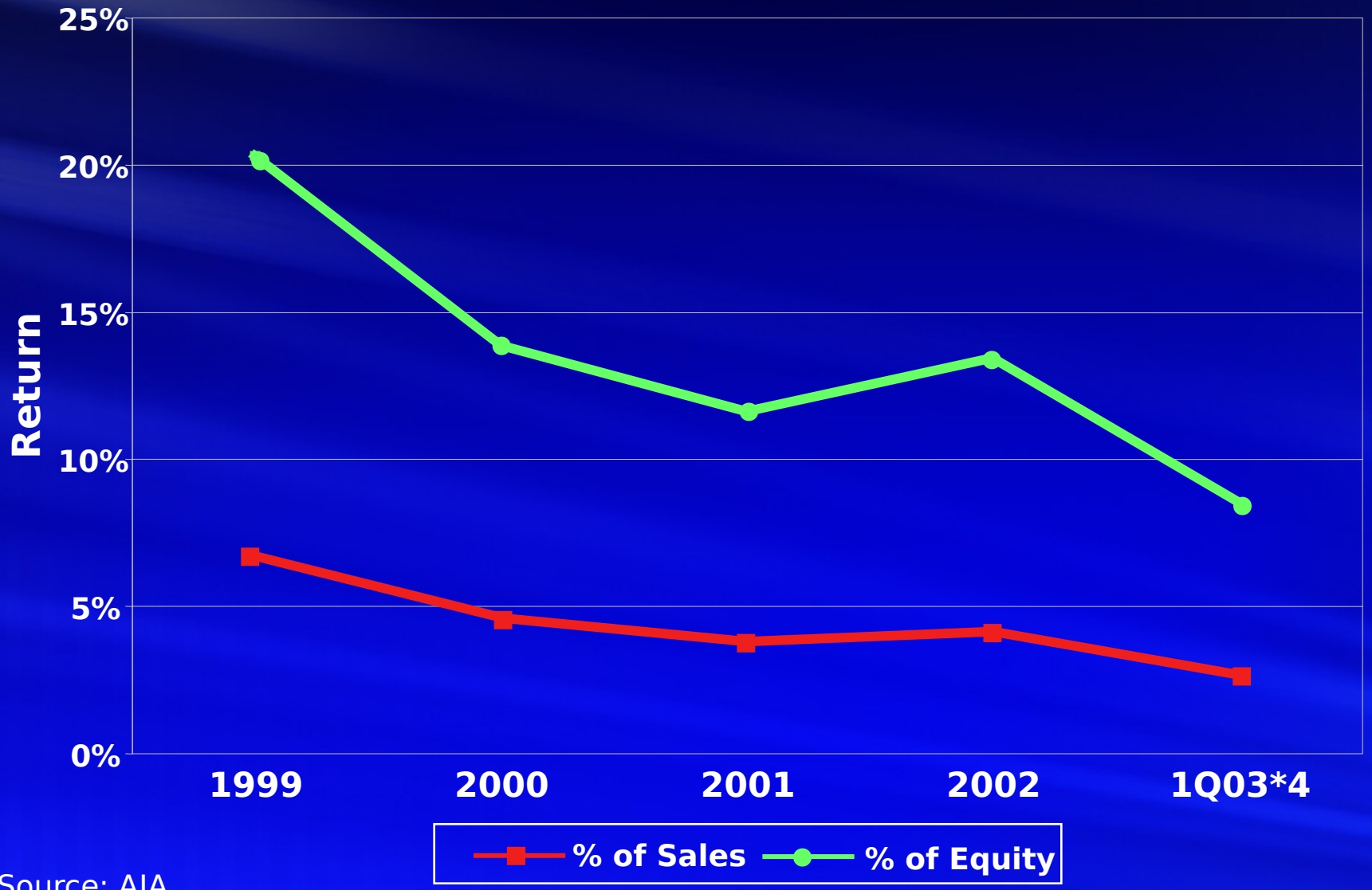

Source: AIA

Contractor Incentives – A Buyer-Seller Cultural Divide

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What is a "reasonable" profit?

	Buyer	Seller (H):	Seller(S):
Average:	9.3%	14.5%	8.5%
Range:	3-9%	9-25%	7.5-10%

What metrics is the seller measured by?

Metrics:	Cost Schedule Performance	Cash, ROE, Backlog, Margin, Growth, Sales Customer
Satisfaction,	Quality	Quarterly
Per		

We Need to Work Together to Narrow the Divide

Aerospace Industry Workforce

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- Aerospace industry employment 586,000 in 2003 – a 57% reduction since 1989
- Average manufacturing employee is 51 years old; the average engineer, 54 years old
- Approximately 27% of workforce will reach retirement eligibility by 2008
- Only 2.4% of nation's R&D performing scientists and engineers work in aerospace industry

We Must Reinvigorate Industry to Make Transformation Happen

Accelerating Transformation

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- DoD requires flexibility and agility to meet commitments
  - Rapidly changing combat dynamic and worldwide operating presence dictate new thinking (requirements flexibility)
- Investor demands increasing on industry
  - Worldwide competition
  - Consolidation, competition, new starts, changing environment
  - Business performance required to keep pace of technology development
- Industry required to quickly provide combat capability
  - 10 Year fielding cycles should not be acceptable to either party
  - Requires business and requirement flexibility

Cost becomes one of the major drivers

Strength through Partnerships

- Partnering between industry and DoD critical for this flexibility and agility
  - Align for mutual success
  - Taking "Best of Thought" throughout industry to provide integrated capability
    - Producing capability more quickly by understanding the existing architecture
    - Building systems that operate transparently with the competition
    - Alignment of requirements and technology
- Being a fair partner/honest broker
  - Industry and DoD must provide reasons to team and cooperate

Staying aligned and committed to the warfighter

Looking Forward

- Consider successes that leverage commonality and jointness
- Outsourcing non-combat-related jobs to free up warfighter billets
- Evolve to a new way of producing capability
- Satisfying the DEMAND for weapons without long lead time

Meeting the need with weapons on demand

Weapons on Demand

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- Ability to rapidly turn on production capability
  - Preferred suppliers and partners
  - Simplified contracting process
  - Common factory
  - Strong common process and architecture
- Provide full service capability
  - Cost effective disposition and total systems ownership
    - Valued, long term partners committed to whole life cycle support
- Business stability can help provide warfighting flexibility

Take it further…weapons as nodes in the net

Wishful Thinking or Reality?

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- Maybe a little of both
  - Netted architecture exists with bandwidth to handle the detail
  - Weapons range is Increasing
- Weapons on the net/killer UAVs may be the answer to creating weapons on demand
  - Smaller logistic footprint, more agile fighting force
  - Common factory producing weapons with interchangeable payloads
  - Swarming weapons/UAVs choreographed to take out targets in priority order
  - Robust battlefield situational awareness integrated in single operating picture
  - Focuses on supplementing the combined operating picture
- But much needs to change to get there
  - Industry/DoD partnership, teamwork and trust
  - In the capitalist democracy we are all charged with protecting, profit should be a good word

The environment is driving extraordinary change

Summary

- Changing world requires new types of partnerships
- Many opportunities exist
- New models can better serve our warfighters